be used on such devices, as long as the device completes the ODI certification process to ensure it meets Verizon Wireless' published technical specifications.

The devices that are coming to ODI represent the varied and innovative uses that mobility offers for personal and business services. The first device to take advantage of the open network is a wireless device from SupplyNet Communications, a 21-employee firm in Schaumburg, Ill. This battery-powered modem connects to a sensor that dips into large storage containers, like construction-site diesel tanks or tanks of shortening at a food factory. When a tank runs low, the modem sends a text message to SupplyNet, which alerts the customer that it needs a refill. This device is an example of a machine-to-machine, or M2M, application, where an automated system, like an alarm or a temperature gauge, reports its observations to a control center.

The second certified device is also an M2M device, part of an advanced radio frequency monitoring system to assist in offender compliance through BI Incorporated, a pioneer in electronic monitoring and criminal justice compliance tools. For this system, the offender wears a transmitter, and the receiver and cellular unit are placed inside the home. The entire unit allows public safety to manage compliance on a reliable and secure basis.

Other devices that are currently in the ODI process include:

- A low-cost handset for voice and SMS that will give consumers an alternative to Verizon Wireless branded handsets, yet still use America's most reliable network;
- A self-contained, industrial strength wireless router that will provide always available broadband network connectivity for applications such as public safety, data center backup, and disaster recovery;
- Various broadband routers that will offer remote device management for enterprise primary and backup wireless LAN connectivity;
- A wireless meter reader for fixed telemetry that will be packaged in a standard utility meter housing that can be positioned wherever the cellular signal strength is best; and,

- A small, consumer oriented tracking device that will connect with a home computer to allow personal tracking and location of vehicles, children and pets.

Other devices in the pipeline include fleet tracking systems, portable gaming devices, health status tracking meters, senior citizen phones, mobile wallets, and high-end smartphones. While M2M devices are somewhat simpler, and so, have been certified more quickly, Verizon Wireless anticipates that third-party telephony devices will become available in the very near future.

All these devices offer connections, whether people-to-people, or machine-to-machine. Machine-to-machine reporting and sensing devices can be very effective in rural areas at notifying distant users of the status or condition of a certain facility or installation. Such devices save resources and time by pinpointing the facility that needs attention. People-to-people connecting devices range from alternative telephony devices to location-based systems for personal and business use.

## QUESTION II.12.

12. *At pages 25 through 27 of Exhibit 1 of the Application and at paragraphs 20 through 22 of the Declaration and at pages 2 through 26 of the Reply Declaration, the Applicants discuss the cost efficiencies of the proposed transaction. Please present and support all calculations the Applicants used in determining that, in net present value, after "integration costs," the costs of the combined entity will decrease by approximately $9 billion.*

    See spreadsheet attached as Appendix A.

    a. *Does the $9 billion include the $1 billion in cost savings claimed for the second year after closing the transaction? Is this $1 billion calculated in present or future value?*

**RESPONSE TO QUESTION II.12.a.:**

Yes, the $9 billion includes the $1 billion in cost savings claimed for the second year after closing the transaction. The $1 billion is in nominal terms and does not include an adjustment for present value. All discounting in Verizon Wireless' analysis makes use of a cost of capital rate of [redacted] percent.

b. *Provide support for the claim that Verizon Wireless's costs are lower than ALLTEL's. Explain how Verizon Wireless's "cash expense per customer" compares to that of ALLTEL. Provide, if possible, a better measure of Verizon Wireless's economic cost (i.e., not merely accounting costs).*

**RESPONSE TO QUESTION II.12.b.:**

The following table provides the information requested:

**Cash Expense per Subscriber**

| | 2007 | 1Q '08 | 2Q '08 |
|---|---|---|---|
| VZW | $28.24 | $28.05 | $28.02 |
| ALLTEL | $33.28 | $31.89 | $31.94 |

Source: Company public earnings reports

Cash costs per subscriber per month is calculated by dividing the reported service revenues less EDITDA by average customers for the period.

These costs included are reflective of Verizon Wireless' economic costs that exclude some non cash items, such as depreciation and amortization.

c. *Explain how the Applicants calculated the savings incurred resulting from the elimination of the ALLTEL call center.*

**RESPONSE TO QUESTION II.12.c.:**

While Verizon Wireless expects to realize cost savings relating to customer care expenses, it has not made a final determination regarding which call centers will be closed. Details on the estimated cost savings relating to customer care are detailed in Appendix A, VZW-ALLTEL 018, 024.

**QUESTION II.13.**

13. *At pages 26 and 27 of Exhibit 1 of the Application, the Applicants discuss the cost savings that will result from the proposed transaction. Explain whether the elimination of duplicate advertising will result in lower prices for subscribers.*

**RESPONSE TO QUESTION II.13.:**

The Reply Declaration of Dennis Carlton, Allan Shampine and Hal Sider identifies how the proposed transaction provides incentives for the merged firm to expand output and reduce price. Pages 17-19 of that declaration highlight how certain merger-related cost reductions, including roaming and customer-service related expenses which vary with customers served, provide incentives to reduce costs. One example of the type of benefit that can result from operational efficiencies generated by this transaction is the expanded calling scope described in response to Question II.9., which provides an effective price reduction that will result in savings opportunities for customers of both companies.

The Carlton, Shampine and Sider Reply Declaration does not assert that the elimination of duplicate advertising, by itself, will result in lower prices for subscribers. However, the declaration stresses that reductions in "fixed costs" (that do not vary with customers or minutes of service provided) are also likely to benefit customers, noting (at p. 20) that while "... costs may be 'fixed' in the short run, the merger-related reductions in these costs benefit consumers by enabling them to realize consumer surplus associated with accelerated or expanded network deployment." The benefits to consumers of reductions in fixed costs and the increasing recognition by academics and antitrust authorities of the benefits to consumers of reductions in fixed costs is discussed in the initial Declaration of Carlton, Sider and Shampine, pp. 12-13.

**QUESTION II.14.**

14. *At paragraph 42 of the Declaration, the Applicants claim that Verizon Wireless will be able to "take advantage of larger volume discounts" in procurement. Substantiate, if possible, that Applicants will receive volume discounts beyond those already awarded to Verizon Wireless by its equipment suppliers. Substantiate, if possible, that these discounts result from increased quantities of purchases.*

**RESPONSE TO QUESTION II.14.:**

Verizon Wireless in most cases has more favorable pricing with common vendors due to higher volumes. Shortly after the close of recent acquisitions, the more favorable pricing is applied on a going forward basis to all purchases made by the acquired company. Additional savings have also been achieved for contracts with vendors that include volume discounts and the combined entity's volume qualifies it for additional discounts. Volume discounts are included in all of the Verizon Wireless core network infrastructure contracts. The investment in core network infrastructure equipment represents the majority of the network investment. For example, in the recent acquisition of Rural Cellular Corporation, Verizon Wireless will realize a savings of at least $[redacted] over the next 3 years on core network infrastructure equipment. Based on its experience with recent acquisitions, Verizon Wireless estimates that it will achieve at least an incremental [redacted] percent savings on the combined network investment between ALLTEL and Verizon Wireless. However, Verizon Wireless can not determine the exact savings that the combined entity will realize because the companies have not yet conducted detailed integration planning and Verizon Wireless does not yet have detailed information about ALLTEL's existing vendor contracts and the incremental volume by vendor.

**QUESTION II.15.**

15. *Provide data from the most recent completed fiscal period on the number of each type of handset sold or given to Verizon Wireless subscribers, noting which of these are available only through Verizon Wireless due to exclusive arrangements with the manufacturer.*

**RESPONSE TO QUESTION II.15.:**

Attached as Appendix B is a list of Verizon Wireless handset models and distribution numbers for the most recently completed fiscal period, Second Quarter of 2008.

[redacted]

Verizon Wireless handsets generally incorporate proprietary software and hardware governing the "look and feel" of the handset that brands them as Verizon Wireless products with a Verizon Wireless user interface and user experience. Also, device colors are frequently produced for certain carriers. Such function and appearance features may be customized for the Verizon Wireless brand and advertised as "exclusive" to Verizon Wireless. Many other carriers' handsets have similar customized features.

**QUESTION II.16.**

16. *At page 15 to 16 of Exhibit 1 of the Application, the Applicants state that Verizon Wireless had the lowest churn rate of all major wireless carriers. Please explain how Verizon Wireless's churn rate compares to ALLTEL's churn rate (not just in markets where they compete). Please provide side-by-side recent data for the total and postpaid customer categories for each company.*

**RESPONSE TO QUESTION II.16.:**

The following table provides the information requested:

**Churn**

| | 2Q '08 | | 2Q '08 YTD | |
|---|---|---|---|---|
| | VZW | ALLTEL | VZW | ALLTEL |
| Postpaid Retail Churn | 0.83% | 1.21% | 0.88% | 1.27% |
| Total Churn | 1.12% | 1.92% | 1.16% | 1.87% |

*Note: Data provided by Verizon Wireless based on public information.*

**QUESTION II.17.**

17. *Regarding the churn analysis performed by Verizon Wireless's economists, please provide details of the calculation, including information on the statistical significance of the difference in actual churn rates and those predicted from market shares. What are the results if the same analysis is performed for the same markets one year earlier?*

**RESPONSE TO QUESTION II.17.:**

The churn analysis presented at pp. 21-22 of the June 13 Declaration of Carlton, Shampine and Sider presents evidence that ALLTEL and Verizon Wireless are not next best substitutes in the provision of wireless services. The results of the additional analyses requested by the Commission in this information request reinforce the conclusions presented in the Carlton, Shampine and Sider report.

If ALLTEL and Verizon Wireless were next best substitutes, the extent of subscriber switching between these carriers would be greater than expected based on ALLTEL's share of subscribers (other than Verizon Wireless). The additional analyses instead indicate that the difference between the observed switching between Verizon Wireless and ALLTEL in 2008 and the higher level expected based on ALLTEL's subscriber share alone is statistically significant, confirming that these carriers cannot be considered next best substitutes. The results of the same analysis using data from 2007 yields the same conclusion as analysis based on 2008 data.

The details of these calculations are as follows: The analysis presented in the June 13 declaration are based on information on the number of consumers that switched to or from Verizon Wireless between January and April 2008. The calculation is based on 33 market areas for which Nielsen/Telephia data on the subscriber shares for wireless carriers are available. The 33 areas are:

| | |
|---|---|
| Albany, GA | Jacksonville, NC |
| Albuquerque, NM | Lincoln, NE |
| Augusta, GA | Montgomery, AL |
| Billings, MT | Norfolk, VA |
| Casper, WY | Omaha, NE |
| Charleston, SC | Panama City, FL |
| Charlotte, NC | Phoenix, AZ |
| Cleveland, OH | Pueblo, NM |
| Columbia, SC | Rapid City, SD |
| Columbus, GA | Savannah, GA |
| Dothan, AL | Sioux Falls, SD |
| Fayetteville, NC | Toledo, OH |
| Grand Rapids, MI | Tucson, AZ |
| Greensboro, NC | Wichita, KS |
| Greenville, SC | Wilmington, NC |
| Hanson, SD | Youngstown, OH |
| Hickory, NC | |

Over this time period and in these areas, there were [redacted] subscribers that switched from Verizon Wireless to other wireless carriers and [redacted] wireless subscribers that switched to Verizon Wireless. These figures were identified based on internal Verizon Wireless data. Inflows to Verizon Wireless include "port ins" (subscribers attracted from other carriers) and "winbacks" (former Verizon Wireless subscribers who recently switched to another carrier that agreed to return to Verizon Wireless, e.g. in response to a promotional offer). Outflows from Verizon include "port outs" (Verizon Wireless subscribers that switched to another carrier) and "rollbacks" (individuals that recently switched from other carriers that agreed to return to their prior carrier, e.g. in response to a promotional offer).

The data indicate that [redacted] percent of subscribers that left Verizon Wireless switched to ALLTEL and that [redacted] percent of inflows to Verizon Wireless came from ALLTEL. This figure is compared to ALLTEL's "residual subscriber share" based on Nielsen/Telephia data, which is [redacted] percent over the included areas. The residual subscriber share is defined as ALLTEL's share of non-Verizon Wireless subscribers. The difference between ALLTEL's residual subscriber shares and the ALLTEL inflow/outflow shares based on Verizon Wireless data are statistically significant:

- For outflows, a t-test of the difference between ALLTEL's share of switchers and ALLTEL's residual share yields a t-value of [redacted], which clearly rejects the hypothesis that these values are equal. (N=[redacted])
- For inflows, a t-test of the difference between ALLTEL's share of switchers and ALLTEL's residual share yields a t-value of [redacted], which clearly rejects the hypothesis that these values are equal. (N=[redacted])

If the same churn analysis is performed for the same markets based on 2007 data, the results are as follows:

**Wireless Subscribers Switching Between ALLTEL and Verizon Wireless In Overlap Areas 2007**

| Category | ALLTEL Share |
|---|---|
| Inflows to Verizon Wireless | [redacted] |
| Outflows from Verizon Wireless | [redacted] |
| Expected Based on Relative Subscriber Share | [redacted] |

Notes: 1. Based on 33 overlap areas for which Nielsen / Telephia data are available.
2. Inflows reflect "port ins" and "winbacks" from ALLTEL to Verizon Wireless.
3. Outflows reflect "port outs" and "rollbacks" to ALLTEL from Verizon Wireless.
4. Reflects weighted average of subscriber shares of ALLTEL (excluding Verizon Wireless) based on Nielsen/Telephia data.

Source: Verizon Wireless Local Number Portability data; Nielsen / Telephia share

data.

The difference between the ALLTEL's inflow/outflow share based on 2007 Verizon Wireless data and ALLTEL's residual subscriber share are statistically significant:

- For outflows, a t-test of the difference between ALLTEL's share of switchers and ALLTEL's residual share yields a t-value of [redacted], which clearly rejects the hypothesis that these values are equal. (N=[redacted])
- For inflows, a t-test of the difference between ALLTEL's share of switchers and ALLTEL's residual share yields a t-value of [redacted], which clearly rejects the hypothesis that these values are equal. (N=[redacted])

## III. Document Request for Information Addressing Documents Provided to the Department of Justice

### QUESTION III.1.

1. *Please provide the Telematics data provided to the Department of Justice in response to their Request for Additional Information and Documentary Material issued to the Applicants on August 8, 2008. Also, explain how the Applicants calculated the Telematics data.*

**RESPONSE TO QUESTION III.1.:**

This document is attached as Appendix C. Verizon Wireless defines telematic resellers as those that predominantly use Verizon Wireless data transport services to bundle with their own, value-added applications to create a telematics service. These typically involve machine-to-machine interactions, not involving a human being. Unlike traditional resellers (which predominantly resell Verizon Wireless voice services), telematics resellers generally do not use voice-capable devices, [redacted]. Although telematic resellers may use the service for various machine-to-machine interaction such as fleet management, automatic teller machines, or meter reading, Verizon

Wireless's largest telematic resellers use the service [redacted]

**QUESTION III.2.**

2. *Please provide the following document that was provided to the Department of Justice, indicating both the AT&T and T-Mobile partners on the GSM network: "Project Abraham Summary of Discussions w/ Abraham GC 5/16/08 w/ Molly Feldman & Michael Burns Updates based on 5/22/08 Conversation between Kenny Brooks & Jim Bowlby." (Bates numbers VZN-F 000273-275.)*

**RESPONSE TO QUESTION III.2.:**

This document is attached as Appendix D.

**QUESTION III.3.**

3. *Please provide the pages corresponding to the following Bates numbers: VZN-F 000477-480.*

**RESPONSE TO QUESTION III.3.:**

This document is attached as Appendix E.

**QUESTION III.4.**

4. *Please provide a list of minority partnerships and the partners' locations. (Bates numbers VZN-F 000481-487.) Also, please provide a list of the partners, and their locations, that operate on the GSM network.*

**RESPONSE TO QUESTION III.4.:**

WTB staff clarified that, by this question, they are seeking the identity of the overlapping partnerships referenced in the specified pages as well as the areas in which each partnership provides service. This data is attached as Appendix F. In addition, staff seeks a list of those partnerships that operate on ALLTEL's GSM network and the areas in which they do so. The

Applicants have confirmed that none of the ALLTEL partnerships offer GSM service; all are CDMA only.

# APPENDIX A

# Response to Question II.12.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]